



Insurance Institute of Michigan

Insurance Institute of Michigan Position
Regulation of Credit Scoring Discounts
House Bill 5297
As of March 3, 2010

The Insurance Institute of Michigan (IIM) supports as introduced House Bill 5297, legislation that would allow insurance companies in Michigan to continue to offer discounts to policyholders who represent lower insurance risk.

In Michigan, two-thirds of home and auto insurance policyholders have a lower premium because of good credit-based insurance discounts offered by insurance companies. Insurance companies use credit information because it makes pricing more accurate. Combined with more familiar factors, such as years of driving experience, previous accidents, type of car or home, where you live or drive, and whether you have an alarm system, insurance scores allow insurance companies to differentiate between lower and higher insurance risks.

House Bill 5297 is based on a national model developed by the National Conference of Insurance Legislators. It would:

- Require insurance companies to disclose to consumers that credit information will be considered when determining insurance premiums;
- Allow policyholders to request a review of their insurance score at the time of their annual renewal;
- Require insurance companies to re-rate a person who has successfully challenged an error in their credit history; and
- Prohibit insurance companies from using the following as negative factors in insurance scores: credit inquiries not initiated by the consumer, credit inquiries related to insurance coverage, collection accounts with medical codes, and multiple mortgage and automobile lending inquiries.
- Require an adverse action notice with reason codes providing consumer with information on how to improve their scores.

Independent studies have proven a strong correlation between credit-based insurance scores and the likelihood of an individual filing a claim. A 2004 study performed by the Texas Insurance Department found that there is a direct connection between a person's insurance score and the chances of filing an insurance claim. The study examined data from 1.2 million auto insurance policies (covering 2.5 million vehicles) and 800,000 homeowner insurance policies.

The Texas study found that the claims experience of the 10 percent of consumers with the worst credit-based insurance scores was almost double the claims experience of the 10 percent with the best credit histories. It also concluded that the use of this rating tool by insurance companies is not unfairly discriminatory and is not based on race, nor is it a precise indicator of one's race.

The use of insurance scoring discounts makes pricing more fair. People less likely to file a claim in the future pay less and those more likely to have a loss pay more.

Credit-based insurance scoring provides a consistent and effective tool to evaluate risk that does not discriminate against any specific group of customers. Information such as a person's age, income, ethnic group, religion, gender or marital status is not factored into credit-based insurance scores.

According to a 2008 *Detroit Free Press* editorial, "Banning credit scores would raise rates for some and lower them for others, but it won't solve the larger problem of affordability and equity in insurance. In truth, this change would hurt as many as it helps – in and out of Michigan's great cities and across all economic lines. As many urban policy holders now enjoy good-credit discounts, amounting to 3% to 40%, as do rural and out-state residents."

Using credit-based insurance scores as criteria for rating is within the scope of Michigan insurance laws and the Fair Credit Reporting Act. House Bill 5297 would continue to allow insurance companies to offer discounts while addressing concerns raised by consumers.

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